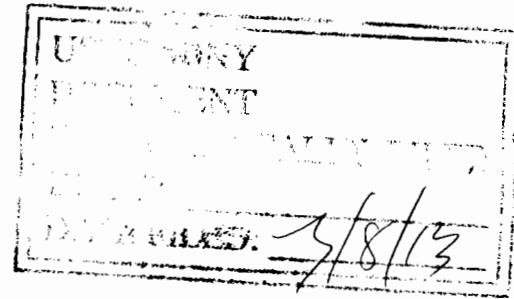


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February 21, 2013

VIA HAND DELIVERY

Hon. Jed S. Rakoff
United States District Court
Southern District of New York
Courtroom 14-B
500 Pearl Street
New York, NY 10007

Docket as a Letter

Re: *Assured Guaranty Municipal Corp. v. Flagstar Bank, FSB*, No. 11-CV-2375

Dear Judge Rakoff:

We submit this letter in response to the Court's direction during our February 14, 2013, conference with chambers to submit a letter addressing the issues of expenses, prejudgment interest, and pending and future claims.

1. Updated Expenses

The Court held in its Order that "Assured is entitled under the I&Is to reimbursement for its reasonable fees and costs in this litigation and the repurchase demands that precipitated it." Order at 102. Assured previously submitted to the Court its fees and costs as of November 2012 (Dkt. No. 108). In our phone application to the Court last week, Assured requested approval to update those figures to reflect additional fees and costs that were not reflected in the original submission, including those incurred afterward. The updated totals, and the underlying time records and invoices, are included in Assured's February 15, 2013 fee submission.

There is no basis in the governing contracts to cut Assured's reimbursable fees and costs off in November; the I&Is make clear that "any and all" reasonable fees and costs

February 21, 2013

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incurred by Assured in connection with this litigation should be reimbursed. Order at 101. Indeed, Assured is entitled to reimbursement of its prospective fees and costs incurred in the remaining prejudgment period, and on appeal if Flagstar elects that route.

The fees and costs Assured has incurred are reasonable in light of the long-running nature of the parties' dispute, with Assured's first repurchase demand served in January 2009, the expert-driven nature of this litigation, the high stakes involved, with over \$100 million in controversy, and the favorable results achieved by Assured.

2. Prejudgment Interest

The Court held in its Order that Assured was entitled to recover its damages "plus interest." Order at 99. The Court held that the Late Payment Rate specified in the I&Is "is the appropriate interest rate to be applied in calculating prejudgment issues," and the Court made clear that the interest ran "as of the dates on which Assured made its claims payments." *Id.* at 100.

The Trustee for the Transactions at issue is Bank of New York Mellon ("BONY"). BONY circulates a report each month (two of which were entered into evidence at trial) that describes, among other things, the claims paid to date by Assured and the reimbursement owed to Assured including the Late Payment Rate. *See* January 25, 2013 2005-1 Trustee Report, Exh. A, at 5 (specifying amount drawn under Assured's policy of \$15,244,038.01); *id.* at 3 (reimbursement due to Assured including interest of \$17,001,248.24) and January 25, 2013 2006-2 Trustee Report, Exh. B, at 4 (amount drawn under policy of \$75,488,566.81); *id.* at 3 (reimbursement due of \$89,112,456.74). Using these reports, the prejudgment interest due to Assured as of January 25, 2013 was \$15,381,100.16.

Assured respectfully submits that the Trustee reports are the best and most objective evidence of the interest owed to Assured to date. Indeed, the parties themselves relied on the data in the Trustee reports in assessing Assured's damages during trial. Assured respectfully submits that the Court award prejudgment interest to Assured in the amount specified by the most recent Trustee report available at the time of the judgment's filing.

3. Prejudgment Interest on Fees and Expenses

The I&Is provide that Assured is entitled to interest at the Late Payment Rate not only on the claims that it has paid, but also on "any and all amounts described in . . . Section 3.03 . . ." Pl. Ex. 90, §3.03(c). Section 3.03, which the Court relied on in its order, is the section that provides Assured with the right to reimbursement of its fees and expenses. Order at 101 (quoting §3.03(b)). Under the express terms of the I&Is, Assured is entitled to prejudgment interest on the fees and costs it has incurred in this case.

February 21, 2013
Page 3

As noted in our February 15, 2013 letter to the Court, Assured has paid to its counsel \$2.75 million in flat fees to date (no interest would accrue on the 10% contingency fee owed to counsel, which has not yet been paid). It has paid \$162,794.34 in costs incurred by its counsel, and \$3,099,713.20 in expenses. Assured respectfully requests that the Court order the payment of prejudgment interest on these amounts to Assured. Pending the Court's decision, Assured will furnish Flagstar with the calculations of interest on these amounts, and will advise the Court if there are any disagreements as to those calculations.

4. Pending Claims

The trial in this matter took place in October of last year, and at trial, Assured presented the most recent claims figures it had, as of the September 25, 2012 Trustee reports. *See* Pl. Ex. 458, 459. As the Court observed in its order, claims at that time amounted to approximately \$14.7 million arising from the 2005-1 Trust and \$75.4 million arising from the 2006-2 Trust, for a total of \$90.1 million. The Court subtracted from that sum \$950,000 in reimbursements.

During the past four months, an additional \$632,604.82 in claims have been paid, as reflected in the most recent Trustee reports (using the "amounts drawn" figures on pages 3 of Exhibits A and B to this letter). Additional claims may also be paid before the Court's judgment is entered.

The Court determined in its Order that "Assured has sufficiently proven that it should be reimbursed in full for all claims paid on the underlying transactions, as the Court accepts Dr. Mason's largely unrebutted testimony that Flagstar would be obligated to reimburse Assured for the entirety of the claims Assured paid under a wide range of defect rates." Order at 99. Given the Court's finding, Assured respectfully requests that the claims total in the Court's judgment reflect the claims paid by Assured at the time of the judgment, as reflected in the most recent Trustee reports for the Transactions. Otherwise, Assured will unfairly be penalized simply because the trial took place before Assured incurred all its damages due to Flagstar's breaches of contract.

5. Future Claims

Assured also may be responsible for a substantial amount of future claims as a result of Flagstar's breaches. As discussed at trial, the trusts at issue in this case still owe payments of principal and interest to the investors, and Assured will need to make up any further shortfalls due to the insufficiency of returns on the mortgage loan pool. However, as Dr. Mason testified at trial, if Flagstar had repurchased the defective loans when it should have, there now would be excess collateralization—a "cushion" in the trusts to account for future claims—of \$20.5 million in the 2005-1 Trust and \$21 million in the 2006-2 Trust. These cushions would insulate Assured against future claims. Order at 60-61. This testimony was not rebutted by Flagstar, and the Court ultimately concluded that

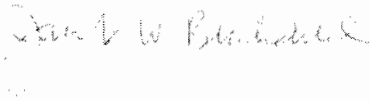
February 21, 2013
Page 4

Dr. Mason's testimony was "clear, convincing and credible," and that "Dr. Mason provided a solid basis for calculating the damages occasioned by any such breaches." *Id.* at 63. While the Court discounted "to some small degree" Assured's claimed breach rate, the Court credited "Dr. Mason's largely un rebutted testimony" that Flagstar would be obligated to reimburse Assured for the entirety of the claims Assured paid under "a wide range of defect rates." *Id.* In fact, breach rates far lower than the rates asserted by Assured would nevertheless provide for the full amount of cushion against future claims.

For this reason, Assured respectfully requests that the Court order Flagstar to reimburse Assured for any future claims in the amount of \$20.5 million in the 2005-1 Trust and \$21 million in the 2006-2 Trust, consistent with Dr. Mason's testimony at trial, reduced by any amount in pending claims awarded to Assured, as addressed in Section 4.

We thank the Court for its continued attention to this matter.

Respectfully,

A handwritten signature in dark ink, appearing to read "Jacob W. Buchdahl".

Jacob W. Buchdahl

Enclosures

cc: All Counsel of Record (by e-mail)

Flagstar Home Equity Loan Trust, Series 2005-1

January 25, 2013

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IF THERE ARE ANY QUESTIONS OR PROBLEMS WITH THIS STATEMENT, PLEASE CONTACT THE ADMINISTRATOR LISTED BELOW:

Brian Kaczmariski

The Bank of New York Mellon Corporation - Structured Finance

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Flagstar Home Equity Loan Trust, Series 2005-1

January 25, 2013

DISTRIBUTION IN DOLLARS								
CLASS	ORIGINAL FACE VALUE	BEGINNING PRINCIPAL BALANCE	PRINCIPAL	INTEREST	TOTAL	REALIZED LOSSES	DEFERRED INTEREST	ENDING PRINCIPAL BALANCE
A	600,000,000.00	74,542,270.75	1,501,304.73	27,313.53	1,528,618.26	0.00	0.00	73,040,966.02
TRANS	0.00	25,310,876.49	0.00	103,200.05	103,200.05	0.00	-123,746.60	25,187,129.89
TOTALS	600,000,000.00	99,853,147.24	1,501,304.73	130,513.58	1,631,818.31	0.00	-123,746.60	98,228,095.91

FACTOR INFORMATION PER \$1000 OF ORIGINAL FACE							
CLASS	CUSIP	BEGINNING PRINCIPAL	PRINCIPAL	INTEREST	TOTAL	ENDING PRINCIPAL	CURRENT PASS-THRU RATE
A	33848DAA6	124.23711792	2.50217455	0.04552255	2.54769710	121.73494337	0.439700%
TOTALS		166.42191207	2.50217455	0.21752263	2.71969718	163.71349318	

Flagstar Home Equity Loan Trust, Series 2005-1

January 25, 2013

Collateral Information

Beginning Collateral Balance	99,853,147.24
Ending Collateral Balance	98,228,095.91
Current Period Principal Collection	1,108,015.55
Additional Principal (Draws)	9,795.00
Beginning Loan Count	2,240
Ending Loan Count	2,204

Interest Distributions

Interest Collection	449,357.94
Investor Floating Allocation Percentage	74.65190%
Transfer Allocation Percentage	25.34810%
Investor Fixed Allocation Percentage	100.00%
Class A Interest	27,313.53
Class A Rate	0.439700%
Investor Interest Collections = Interest Collected * Investor Floating Allocation %	335,454.24
Transferor Interest Collection = Interest Collected * (1 - Investor Floating Allocation %)	113,903.70
Class A Current Interest Shortfall	0.00
Class A Unpaid Investor Interest Shortfall	0.00
Interest on the Class A Unpaid Investor Interest Shortfall	0.00
Remaining Class A Unpaid Investor Interest Shortfall	0.00
Class A Unpaid Investor Interest Shortfall Paid	0.00
Basis Risk Carryforward Distributed	0.00
Basis Risk Carryforward Remaining	0.00
Basis Risk Shortfall	0.00

Principal Distributions

Principal Distributed	1,501,304.73
Ending Note Principal Balance	73,040,966.02
Per \$1,000 of Original Note Principal Balance	121.7349433738
Overcollateralization Release Amount	0.00
Overcollateralization Amount	0.00
Overcollateralization Target Amount	5,624,604.56
Overcollateralization Deficiency Amount	5,624,604.56
Investor Interest Collections Distributed In Reduction of OC Deficiency	0.00
Excess Spread Rate	0.000%
Current period Liquidation Loss Amount	551,913.37
Current period Recovery Amount	25,082.59
Investor Liquidation Loss Amount	393,289.18
Transferor Liquidation Loss Amount	133,541.60
Aggregate Liquidation Loss Amount	79,993,362.89
Aggregate Liquidation Amount as % of Principal Balance of Initial Mortgage Loans	13.3322%
Additional Balance Increase Amount	25,187,129.89
Insured Payment Included in Distribution	127,707.10
Reimbursement Paid to Certificate Insurer (this period)	0.00
Reimbursement Still Due to Certificate Insurer	17,001,248.24

Flagstar Home Equity Loan Trust, Series 2005-1

January 25, 2013

Fees

Servicing Fee	41,605.48
Amounts to be Distributed to the Note Insurer	11,035.63
Trustee Fee	621.19

Delinquencies

Delinquency Group

	Number of Loans	Principal Balance
30 to 59 Days Delinquent	16	955,338.10
60 to 89 Days Delinquent	11	391,730.43
90 to 119 Days Delinquent	9	568,185.58
120 to 149 Days Delinquent	5	307,504.92
150 to 179 Days Delinquent	6	107,769.04
180 Days plus Delinquent	4	147,129.09

* Delinquent Buckets above do not include Bankruptcies, Foreclosures and REO Properties.

Bankruptcies

Bankruptcy Group Total Report		
Number of Loans	Principal Balance	Percentage
24	1,111,878.88	1.13%

Foreclosures

Foreclosure Group Total Report		
Number of Loans	Principal Balance	Percentage
2	414,856.24	0.42%

REO Properties

REO Group Total Report		
Number of Loans	Principal Balance	Percentage
0	0.00	0.00%

Flagstar Home Equity Loan Trust, Series 2005-1

January 25, 2013

Other Informations

Funding Account Balance at the beginning of related collection period	0.00
Funding Account Interest Earning during related collection period)	0.00
Principal Balance of Additional Mortgage Loans Acquired by the Issuing Entity during related collection period	0.00
Funding Account Deposit during related collection period	0.00
Funding Account Remit Income to Flagstar during related collection period	0.00
Funding Account Balance at the end of related collection period	0.00
Amounts Drawn Under the Policy for the Notes	15,244,038.01
Book Value of Real Estate Acquired Through Foreclosure	0.00
Repurchased Principal	0.00
Current Servicer Advances	0.00
Cumulated Servicer Advances Outstanding	0.00
Number of Mortgage Loans Retransferred to the Holders of the Certificates	0.00
Principal Balances of Mortgage Loans Retransferred to the Holders of the Certificates	0.00
Weighted Average Gross Rate	5.7236%
Stepdown Cumulative Loss Test	FAIL
Has Stepdown Date occurred?	YES
Has a Cut_Off Date Occurred Since the Prior Determination Date	N/A
Three Month Rolling Excess Spread	0.30948%
Loan Level Modification	0.00

Has Custody Trigger Event occurred?

a)Has Event of Servicer Termination occurred?	YES
b)Is the Trust in Rapid Amortization Period?	YES

Flagstar Home Equity Loan Trust, Series 2006-2

January 25, 2013

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IF THERE ARE ANY QUESTIONS OR PROBLEMS WITH THIS STATEMENT, PLEASE CONTACT THE ADMINISTRATOR LISTED BELOW:

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Flagstar Home Equity Loan Trust, Series 2006-2

January 25, 2013

DISTRIBUTION IN DOLLARS								
CLASS	ORIGINAL FACE VALUE	BEGINNING PRINCIPAL BALANCE	PRINCIPAL	INTEREST	TOTAL	REALIZED LOSSES	DEFERRED INTEREST	ENDING PRINCIPAL BALANCE
A	302,182,000.00	74,958,100.05	820,481.58	23,093.34	843,574.92	0.00	0.00	74,137,618.47
CERT	0.00	0.00	0.00	127,870.77	127,870.77	0.00	0.00	0.00
TOTALS	302,182,000.00	74,958,100.05	820,481.58	150,964.11	971,445.69	0.00	0.00	74,137,618.47

FACTOR INFORMATION PER \$1000 OF ORIGINAL FACE							
CLASS	CUSIP	BEGINNING PRINCIPAL	PRINCIPAL	INTEREST	TOTAL	ENDING PRINCIPAL	CURRENT PASS-THRU RATE
A	33848HAA7	248.05613852	2.71519012	0.07642196	2.79161208	245.34094840	0.369700%
TOTALS		248.05613852	2.71519012	0.49958009	3.21477021	245.34094840	



Flagstar Home Equity Loan Trust, Series 2006-2

January 25, 2013

Collateral Information

Beginning Collateral Balance	103,267,713.53
Ending Collateral Balance	102,195,454.36
Current Period Principal Collection	520,784.39
Additional Principal (Draws)	400.00
Loan Modification	0.00
Net Principal Collections	520,384.39
Beginning Loan Count	1,719
Ending Loan Count	1,692

Interest Distributions

Interest Collection	513,017.44
Investor Allocation Percentage	72.75662%
Class A Interest	23,093.34
Class A Rate	0.369700%
Investor Interest Collections = Interest Collected * Investor Allocation %	373,254.15
Transferor Interest Collection = Interest Collected * (1 - Investor Allocation %)	139,763.29
Class A Current Interest Shortfall	0.00
Class A Unpaid Investor Interest Shortfall	0.00
Interest on the Class A Unpaid Investor Interest Shortfall	0.00
Remaining Class A Unpaid Investor Interest Shortfall	0.00
Class A Unpaid Investor Interest Shortfall Paid	0.00
Basis Risk Carryforward Distributed	0.00
Basis Risk Carryforward Remaining	0.00
Basis Risk Shortfall	0.00

Principal Distributions

Principal Distributed	820,481.58
Ending Note Principal Balance	74,137,618.47
Per \$1,000 of Original Note Principal Balance	245.3409484012
Overcollateralization Release Amount	0.00
Overcollateralization Amount	74,170.57
Overcollateralization Target Amount	5,334,515.95
Overcollateralization Deficiency Amount	5,260,345.39
Investor Interest Collections Distributed In Reduction of OC Deficiency	299,697.19
Excess Spread Rate	0.000%
Aggregate Distribution Amount to the Noteholders	843,574.92
Current period Liquidation Loss Amount	648,633.67
Current period Recovery Amount	96,758.89
Aggregate Liquidation Loss Amount	142,523,239.39
Aggregate Liquidation Amount as % of Principal Balance of Initial Mortgage Loans	47.1647%
Additional Balance Increase Amount	27,983,665.33
Insured Payment Included in Distribution	0.00
Reimbursement Paid to Certificate Insurer (this period)	0.00
Late Payment Rate	5.25%
Reimbursement Still Due to Certificate Insurer	89,112,456.74



Flagstar Home Equity Loan Trust, Series 2006-2

January 25, 2013

Fees

Servicing Fee	43,028.21
Amounts to be Distributed to the Note Insurer	18,703.27
Trustee Fee	624.65

Delinquencies

Delinquency Report

	Number of Delinquency Loans	Asset Balances of Delinquency Loans
30 to 59 days	20	1,283,017.31
60 to 89 days	11	368,090.62
90 to 119 days	3	235,098.65
120 to 149 days	8	1,024,199.34
150 to 179 days	7	271,924.11
180 or more days	3	838,902.21

Number of REO Loans	0
Balance of REO Loans	0.00
Number of Foreclosure Loans	2
Balance of Foreclosure Loans	319,768.23
Number of Bankruptcy Loans	20
Balance of Bankruptcy Loans	952,647.21

Other Informations

Funding Account Balance at the beginning of related collection period	0.00
Funding Account Interest Earning during related collection period	0.00
Principal Balance of Additional Mortgage Loans Acquired by the Issuing Entity during related collection period	0.00
Funding Account Deposit during related collection period	0.00
Funding Account Remit Income to Flagstar during related collection period	0.00
Funding Account Balance at the end of related collection period	0.00
Amounts Drawn Under the Policy for the Notes	75,488,566.81
Book Value of Real Estate Acquired Through Foreclosure	0.00
Current Servicer Advances	0.00
Cumulated Servicer Advances Outstanding	0.00
Number of Mortgage Loans Retransferred to the Holders of the Certificates	0.00
Principal Balances of Mortgage Loans Retransferred to the Holders of the Certificates	0.00
Current Period Principal Collections in excess of Principal Distribution	0.00
Weighted Average Mortgage Gross Rate	6.4124%
Stepdown Cumulative Loss Test	NOT MET
Has Stepdown Date occurred?	YES
Has a Cut_Off Date Occurred Since the Prior Determination Date	N/A
Three Month Rolling Excess Spread	0.00000%

Has Custody Trigger Event occurred?

a)Has Event of Servicer Termination occurred?	YES
---	-----



Flagstar Home Equity Loan Trust, Series 2006-2
January 25, 2013

b)Is the Trust in Rapid Amortization Period?

YES